

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 966 – SB 1025

April 13, 2011

SUMMARY OF AMENDMENTS (005982, 005277): Defines “home state” under the Surplus Lines Insurance Act. Permits Tennessee to license only surplus lines brokers who conduct surplus lines business with insureds for whom Tennessee is the home state. Authorizes Tennessee to join the Surplus Lines Insurance Multi-State Compliance Compact, which will establish a Commission to determine the proper procedure for collecting and allocating surplus lines premium tax revenues across the states. Increases all surplus lines premium tax to a five percent rate from the current rates of 3.25 percent on fire premiums, 2.5 percent premiums other than fire premiums, and 4.4 percent on workers’ compensation premiums. Authorizes the state, if the compact fails to become effective, to enter into a cooperative agreement with another state or states to collect insurance premium taxes imposed by § 56-14-113.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - \$1,300

Other Fiscal Impact – The Department of Commerce and Insurance is unable to determine the net revenue impact from joining the Surplus Lines Insurance Multi-State Compliance Compact. The definition of "home state" will enable Tennessee to collect premium taxes from some companies that are domiciled in Tennessee but are not currently subject to tax, but will also prevent Tennessee from collecting premium taxes from some companies with property in Tennessee that are not domiciled in Tennessee. The net effect of this change cannot reasonably be quantified but is likely to result in revenue gains exceeding \$1,000,000 and revenue reductions exceeding \$1,000,000. In addition, the tax rate set by the Compact may be higher or lower than Tennessee's current premium tax rate and may result in an increase or reduction in premium revenue also exceeding \$1,000,000.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Increase State Revenue - \$112,900/FY10-11
\$1,355,000/FY11-12 and Subsequent Years

Increase State Expenditures - \$1,300/Recurring

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Assumptions applied to amendments:

- The Department of Commerce and Insurance (TDCI) estimates \$268,031,433 of the 2010 Tennessee premium volume on single state risks will be retained and taxed at the five percent tax rate.
- According to TDCI, these tax collections totaled \$12,046,443 in 2010. TDCI estimates tax collections in 2011 with the 5 percent rate will increase premium tax collections to \$13,401,472 for a total increase in state revenue of \$1,355,029 (\$13,401,472 - \$12,046,443) in FY11-12.
- TDCI anticipates collecting premium tax revenue at the five percent rate for the last month of FY10-11. The increase in state revenue for FY10-11 will be \$112,919 (\$1,355,029 annual revenue / 12 months).
- According to TDCI, license fee revenue will remain at the current level.
- According to the TDCI, there is no a fee for joining or for membership in the Compact.
- Attendance in-person or via conference call is required for the Compact's annual meeting. The location has not been determined, therefore, precise per diem reimbursements are currently unknown. TDCI estimates the cost for one person to attend the meeting in-person is \$1,300.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "James W. White" followed by a stylized monogram or initials.

James W. White, Executive Director

/sbh